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INFO RUEHQQ/ALL EC CAPITALS IMMEDIATE

RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 3975

RUEHMO/AMEMBASSY MOSCOW IMMEDIATE 0566

RUEHKO/AMEMBASSY TOKYO IMMEDIATE 3694

RUFHNA/USMISSION USNATO IMMEDIATE 7628

RUEHROC/AMCONSUL MILAN IMMEDIATE 9718

RUEHROA/AMCONSUL FLORENCE IMMEDIATE 7407

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S E C R E T ROME 14977

BRUSSELS FOR USEC; PARIS FOR USOECD

E.O. 12054: RDS 1,2, 6/25/02 (HOLMES, JOHN W.) OR-M

TAGS: ESTC, EEWT, IT

SUBJECT: REGULATIONS TO AMEND CONTROLS ON EXPORTS TO THE  
- USSR OF OIL AND GAS EQUIPMENT AND TECHNOLOGY

REF: (A) STATE 174622; (B) STATE 174934; (C) ROME 14635;

- (D) DOD CASE 63292, C-ERO-53701

1. SECRET - ENTIRE TEXT.

2. SUMMARY. ON JUNE 24, EMBOFF PROVIDED INFORMATION FROM REFTELS A AND B TO THE DIRECTOR OF THE MFA'S OFFICE OF EASTERN EUROPEAN ECONOMIC AFFAIRS. LATTER RESPONDED THAT THE DECEMBER SANCTIONS HAD NOT STATED THAT THEY WERE TO BE APPLIED RETROACTIVELY; HE PRESUMED THAT THE JUNE 18 EXTENSION OF SANCTIONS ALSO DID NOT SPECIFY THE DATE OF APPLICATION AND WONDERED WHETHER THE USG WANTED TO LEAVE THE DATE OF APPLICATION OPEN SO THAT IF THE EUROPEANS ADOPTED OTHER POLICIES (E.G., IN THE AREA OF EXPORT CREDITS), THE U.S. WOULD THEN ALLOW THE PIPELINE CONTRACTS TO GO FORWARD. HE SAID THE SANCTIONS COULD NOT BE ENFORCED IN ITALY BECAUSE THEY WERE NOT ITALIAN REGULATIONS AND THE GOVERNMENT OF ITALY WOULD CERTAINLY NOT ISSUE ITS OWN DECREES TO ENFORCE THEM. HE DISPUTED USG RATIONALE FOR THE EXTENSION OF SANCTIONS, SAYING THAT THE RECENT MEASURES ON STEEL AND ON SANCTIONS SEND A SIGNAL TO THE USSR THAT WHILE THE WEST CONTINUES TO TALK ABOUT MEASURES AGAINST THE SOVIET UNION, THE ONLY MEASURES IT ADOPTS ARE AGAINST OTHER WESTERN COUNTRIES. HE ASKED WHETHER U.S. POLICY NOW WAS TO MOVE FORWARD ON BOTH SANCTIONS AND ACTIONS IN THE FINANCIAL/COMMERCIAL AREAS (E.G., EXPORT CREDITS). JUNE 25 PRESS ARTICLES REPORT VISITING SOVIET GAS MINISTER DINKOV HAS GIVEN NUOVO PIGNONE AN ULTIMATUM: PRODUCE 50 GTN-25 TURBINES

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ANNUALLY OR LOSE THE ENTIRE CONTRACT AND PAY A HEAVY PENALTY. THE PRESSURE ON NUOVO PIGNONE AND THE MFA OFFICIAL'S COMMENTS SUGGEST THAT OUR EFFORTS TO URGE THE GOI NOT TO UNDERMINE THE U.S. SANCTIONS ARE NOT LIKELY TO BE SUCCESSFUL FOR POLITICAL AND ECONOMIC REASONS. END SUMMARY.

3. ON JUNE 24, EMBOFF PROVIDED INFORMATION ON U.S. REGULATIONS TO AMEND CONTROLS ON OIL AND GAS EQUIPMENT AND TECHNOLOGY EXPORTS TO THE SOVIET UNION (PER REFTELS A AND B) TO GIOVANNI BATTISTINI, DIRECTOR OF THE MFA OFFICE OF EASTERN EUROPEAN ECONOMIC AFFAIRS. BATTISTINI GLANCED CURSORILY AT THE TEXT OF THE JUNE 22 REGULATIONS AND THEN LAUNCHED INTO A 45-MINUTE DISCOURSE ON THE SANCTIONS.

4. DATE OF APPLICATION OF SANCTIONS. BATTISTINI SAID THAT THE DATE OF THE APPLICATION OF THE DECEMBER SANCTIONS HAD NEVER BEEN DEFINITELY SETTLED; THE DECEMBER REGULATIONS GAVE NO SPECIFIC DATE AND LATER DISCUSSIONS AT A DIPLOMATIC LEVEL REVEALED THAT THE AMERICANS CONSIDERED THE SANCTIONS COULD BE APPLIED RETROACTIVELY, WHILE THE EUROPEANS BELIEVED THEY APPLIED TO FUTURE CONTRACTS. BATTISTINI RECALLED A FEBRUARY FOLLOW-UP TO THE JANUARY NAC MEETING WHEN THE U.S. REPRESENTATIVE MADE IT "VERY CLEAR" THAT IF THE EUROPEANS ADOPTED SERIOUS MEASURES FOR THE FUTURE, ESPECIALLY IN THE AREA OF CREDITS, THEN THE U.S. WOULD ALLOW THE EXISTING PIPELINE CONTRACTS TO GO AHEAD AND APPLY THE SANCTIONS ONLY TO FUTURE CONTRACTS. NOTING THAT LEGALLY THERE IS NOTHING WRITTEN THAT SAYS THE SANCTIONS ARE TO BE APPLIED RETROACTIVELY, BATTISTINI SAID THE MOST IMPORTANT QUESTION, HOWEVER, IS WHETHER WITH THE EXTENSION OF THE NEW SANCTIONS THE U.S. HAS AGAIN LEFT UNCLEAR THE DATE OF APPLICATION WITH A CONTINUED UNDERSTANDING THAT IF THERE IS PROGRESS IN THE FINANCIAL/COMMERCIAL AREA, THE USG WILL ALLOW EXISTING PIPELINE CONTRACTS TO BE FULFILLED.

5. UNLIKELY ENFORCEMENT OF SANCTIONS IN ITALY. WHEN EMBOFF NOTED THAT U.S. SANCTIONS WERE CLEARLY INTENDED TO APPLY TO THE EXISTING PIPELINE CONTRACTS, BATTISTINI SAID THAT WITHOUT AN ITALIAN DECREE, U.S. REGULATIONS HAVE NO VALIDITY IN ITALY. HE OBSERVED THAT THE ITALIAN CONSTITUTION STATES THAT LAWS SHOULD NOT APPLY RETROACTIVELY; WHILE IT IS POSSIBLE TO MAKE EXCEPTIONS, IT IS HARD TO IMAGINE THE GOI WOULD ADOPT A DECREE ENFORCING THE U.S. SANCTIONS. HE OBSERVED THAT "IF THESE SANCTIONS

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HAD BEEN WORKED OUT IN HARMONY WITH THE EUROPEANS" OR IF THE GOI COULD JUSTIFY THEIR ADOPTION IN THE NATIONAL INTEREST, THEN THERE MIGHT BE SOME LIKELIHOOD ITALY WOULD SEEK TO ENFORCE THEM. INSTEAD, ACCORDING TO BATTISTINI, THE GOI WILL NOT INTERFERE WITH WHAT NUOVO PIGNONE DOES; NUOVO PIGNONE CAN WORK OUT WHATEVER AGREEMENT IT DESIRES WITH GE, AND "IF NUOVO PIGNONE SENDS ROTORS TO THE SOVIET UNION, WHAT CAN WE DO?"

6. FYI. USSR ULTIMATUM TO NUOVO PIGNONE. THE JUNE 25 PRESS REPORTS THAT VISITING SOVIET GAS MINISTER DINKOV HAS GIVEN NUOVO PIGNONE AN ULTIMATUM: THE FIRM MUST BEGIN CONSTRUCTION OF GTN-25 TURBINES TO SUPPLY 50 ANNUALLY TO THE SOVIET UNION, THUS REPLACING THE GE MS 5002 TURBINES, OR LOSE ITS ENTIRE CONTRACT AND FACE HEAVY PENALTIES FOR NON-DELIVERY. ACCORDING TO THE PAPERS, DINKOV WILL MEET AGAIN JUNE 25 WITH THE TOP DIRECTORS OF ENI; THE PRESS NOTES THIS IS AN EXTREMELY DIFFICULT SITUATION FOR NUOVO PIGNONE WHOSE CONTRACT

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 COULD EASILY BE GIVEN TO ANOTHER FIRM, LIKELY IN GERMANY  
 OR FRANCE. END FYI.  
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7. IN RESPONSE TO JUSTIFICATION OF THE EXTENSION OF THE SANCTIONS (REFTEL B PARA 4), BATTISTINI SAID HE COULD NOT AGREE WITH THE ANALYSIS THAT THIS IS A NEW TOUGH SIGNAL TO PUT MORE PRESSURE ON THE SOVIET ECONOMY SO THAT THE USSR MODIFIES ITS INTERNATIONAL CONDUCT. HE SAID THAT IN LIGHT OF THE DEPARTMENT OF COMMERCE'S ACTION ON COUNTERVAILING DUTIES ON STEEL AND THE JUNE 18 DECISION ON SANCTIONS, THE SIGNAL TO THE USSR IS THAT THE WEST CONTINUES TO TALK ABOUT POSSIBLE MEASURES AGAINST THE SOVIET UNION, BUT THEY DON'T APPLY ANYTHING SERIOUS, WHILE AT THE SAME TIME, THEY ADOPT VERY HARSH MEASURES AGAINST EACH OTHER. HE SAID IF THE U.S. WAS SO CONCERNED ABOUT THE SITUATION IN POLAND, THERE WERE A NUMBER OF MEASURES THAT COULD HAVE BEEN TAKEN, SUCH AS A GRAIN EMBARGO OR ADDITIONAL SANCTIONS ON ELECTRONIC EQUIPMENT (WHICH IS U.S.-PRODUCED). HOWEVER, HE WENT ON, "INSTEAD, YOU TOOK OIL AND GAS WHICH ARE THE ONLY AREAS WHICH HURT THE EUROPEANS BECAUSE THEY SIGNED CONTRACTS WITH THE SOVIET UNION LAST SEPTEMBER BEFORE ANYTHING HAPPENED IN POLAND." ALTHOUGH EMBOFF MADE THE POINT THAT U.S. FIRMS ALSO STAND TO LOSE FROM THE SANCTIONS, BATTISTINI WAS NOT MOLLIFIED, INSISTING THAT A GRAIN EMBARGO OR OTHER MEASURES WOULD HAVE BEEN MORE EFFECTIVELY AGAINST THE SOVIETS AND LESS DAMAGING TO EUROPEAN ECONOMIES.

8. EXPORT CEDITIS. IN RESPONSE TO BATTISTINI'S QUESTION, EMBOFF STATED THAT THE PRESIDENT'S ACTION WAS NOT A REFLECTION OF U.S. DISSATISFACTION WITH DISCUSSIONS AT THE VERSAILLES SUMMIT AND THAT THE U.S. INTENDED TO PURSUE THE CONSENSUS DEVELOPED AT THE SUMMIT ON PRUDENCE IN FINANCIAL DEALINGS WITH THE SOVIETS. BATTISTINI SAID THAT HE WELCOMED THIS BUT WAS SOMEWHAT CONFUSED. IN THE PAST, IT APPEARED THE U.S. WANTED EITHER TO MAKE PROGRESS IN THE FINANCIAL AREA OR ELSE IT WOULD IMPOSE ITS SANCTIONS ON THE PIPELINE EQUIPMENT; NOW IT APPEARS THE U.S. IS GOING FORWARD ON BOTH FRONTS. HE REVERTED TO HIS ORIGINAL QUESTION -- IN THE FRAMEWORK OF THE EXTENSION OF THE SANCTIONS, IS THERE STILL ROOM FOR A TRADEOFF, I.E., IF EUROPE MOVES FORWARD ON THE FINANCIAL ISSUES, MIGHT THE U.S. THEN NOT INSIST ON THE RETROACTIVE APPLICATION OF THE SANCTIONS?

9. COMMENT. ALTHOUGH GOI OFFICIALS HAVE NOT MADE PUBLIC STATEMENTS AGAINST THE EXTENSION OF U.S. SANCTIONS AS OTHER EUROPEAN LEADERS HAVE, WE BELIEVE, READING PRESS REPORTS AND INTELLIGENCE REPORTS ON THE SOVIET ULTIMATUM TO NUOVO PIGNONE TOGETHER WITH BATTISTINI'S UNCHARACTERISTICALLY HARD LINE, THAT ITALY, FOR POLITICAL AND ECONOMIC REASONS, MAY WELL NOT GO ALONG WITH THE NEW U.S. REGULATIONS. BATTISTINI'S QUESTION CONCERNING THE DATE OF APPLICATION IS AN INTERESTING ONE, BUT WE GATHER FROM HIS OVERALL REMARKS, IN MANY WAYS IT IS MERELY AN ACADEMIC ONE. WE SUSPECT THE GOI (LIKELY WITH INDUSTRY OFFICIALS) IS ALREADY SEEKING LOOPHOLES AND WAYS TO AVOID THE ENFORCEMENT OF THE U.S. SANCTIONS. AT THIS MOMENT, IT APPEARS FAIRLY LIKELY THAT THE GOI WOULD IGNORE NUOVO PIGNONE EFFORTS TO UNDERMINE THE U.S. REGULATIONS. TO TRY TO ENFORCE THEM, GIVEN THE SOVIET ULTIMATUM, WOULD, ACCORDING TO AN INTELLIGENCE REPORT (REF D), MEAN THE CLOSURE OF NUOVO PIGNONE, SIGNIFICANT LABOR UNREST IN FLORENCE, AND POSSIBLY EVEN ATTACKS ON

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AMERICAN TARGETS. TO SUM UP, WE FORSEE THE GOI WILL NOT SUPPORT OUR ACTION; ITS DISSENT, HOWEVER, MAY TAKE

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THE FORM NOT OF STRIDENTPUBLIC STATEMENTS, BUT OF  
QUIET EVASION. END COMMENT. BRIDGES

END OF MESSAGE

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